BRITISH COLUMBIA PETROLEUM CORPORATION

1990 - 1991 ANNUAL REPORT

91-06973/

LETTER OF TRANSMITTAL

June 24, 1991

To His Honour the Honourable David Lam,
Lieutenant-Governor of the Province
of British Columbia

MAY IT PLEASE YOUR HONOUR:

I have the pleasure to submit the Annual Report of the British Columbia Petroleum Corporation for the year ended March 31, 1991.

Jack Weisgerber,
Minister of Energy,
Mines and Petroleum Resources

REPORT OF THE DIRECTORS

The fiscal year ended March 31, 1991 has been one of major transition for British Columbia Petroleum Corporation (the Corporation). On August 1, 1990 the marketing functions of the Corporation were formally transferred to CanWest Gas Supply Inc. (CanWest). At the same time, new legislation - the *Natural Gas Price Act, 1989* and the *Natural Gas Price Amendment Act,1990* - defined the roles of Government and the Corporation in a deregulated natural gas marketplace.

With the transfer of the marketing operations to CanWest, the role of the Corporation significantly changed. No longer a marketer of natural gas and by-products, it performs a number of administrative functions on behalf of the Province. The principal duties of the "new" British Columbia Petroleum Corporation centre around the key administrative functions of: issuing Acquisition Orders and determining the respective netback prices for the purpose of calculating royalty; issuing Findings of Producer Support for netback gas sold through an aggregator; collection of an industry levy charged to all producers based on gas production; collection of data regarding all sale transactions; monitoring of all production, sales and marketing costs; and information-gathering regarding all aspects of the industry, from wellhead to end-use customer, to assist the Government with its policy decisions and to enable the Corporation to establish the Acquisition Order price.

Most of the key events of last year relate to the transfer of the Corporation's marketing functions and the transition to a new system of operation. These changes occurred with minimal disruption to producers, and the producer netback pricing process continued unimpeded.

Of the 147 British Columbia producers who held gas purchase contracts with the Corporation, a majority agreed to amend their contracts by substituting CanWest for the Corporation, although they were under no obligation to do so. Consequently, 30 companies, representing 162 gas purchase agreements, remain with the Corporation and are administered by CanWest under the terms of the Leftover Gas Agreement. These producers continue to receive the same netback price for gas as those now with CanWest, however, they do not have voting privileges with regard to the determination of that price.

Another outcome of the transition was a significant increase in the volume of Acquisition Orders issued by the Corporation, which rose to 373 from 115 in the previous year. While the number of Acquisition Orders would have risen to a certain extent due to normal growth in direct sales, this increase resulted specifically from the changeover.

One of the obligations that was not transferred to CanWest was the gas sales arrangement between the Corporation and Ocelot Chemicals Inc. for the sup-

ply of gas to Ocelot's methanol plant at Kitimat, British Columbia. Currently, the Corporation and its wholly owned subsidiary, B.C. Petroleum (Kitimat) Ltd., provide approximately two-thirds of Ocelot's supply through a gas sales agreement and one-third through a firm service contract which provides Ocelot with the capacity to carry its own supply of gas in the Pacific Northern Gas Ltd. pipeline. Under negotiations presently in progress, it is expected that all of the gas will be supplied to Ocelot under the firm service contract by November 1, 1991. Both the firm service contract and the gas sales agreement expire on November 1, 2002. As the Corporation's mandate is no longer to market natural gas, the conversion of this sales agreement to a firm service agreement remains a priority.

Since the transfer, there has been a change in the way in which the Corporation receives its revenues. An explicit user fee is levied on natural gas producers to fully recover administrative costs, incurred by both the Corporation and the Ministry, arising from deregulation of the industry. The levy is based on the volume of gas produced. As the transition did not occur until well into the second quarter of 1990, only eight months remained in the fiscal year to recover a full year's operating costs. This, combined with the Corporation's start-up costs related to the transition, resulted in an initial levy of 30.9 cents per thousand cubic metres.

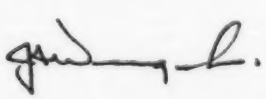
The Corporation is committed to keep its operating costs at a minimum. The levy has been lowered to 19.8 cents for the 1991 fiscal year from an annualized rate of 20.6 cents in 1990.

In order to carry out its mandate effectively, the Corporation is in the process of developing a comprehensive management information system. While facets of this information system are currently operational, completion of the system will be a priority in the coming year. The Corporation recognizes that it must stay current with an industry which is increasingly shifting to electronic data interchange. Future consideration will be given to electronic data interchange should it prove beneficial for both the Corporation and industry.

The Board regrets the passing of the Honourable Jack Davis, Chairman of the Board, on March 28, 1991. His dedication and determination inspired the staff of the Corporation to strive for excellence.

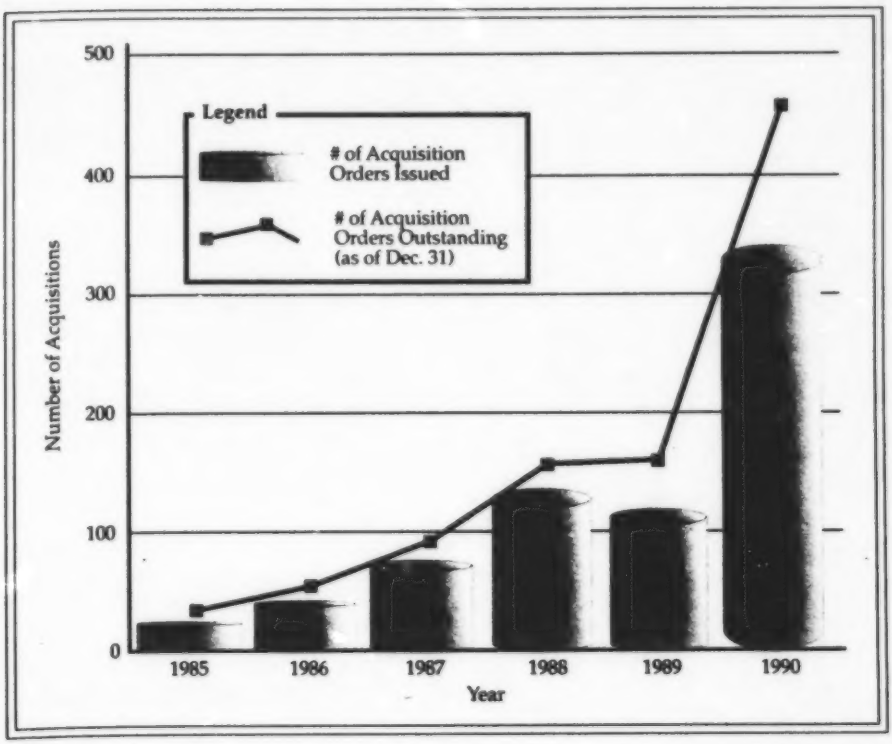
The Board acknowledges the extra efforts of staff to facilitate a smooth transition. With an experienced, knowledgeable staff and the use of advanced information technology, the Corporation is committed to accomplishing its goals.

On behalf of the Board,

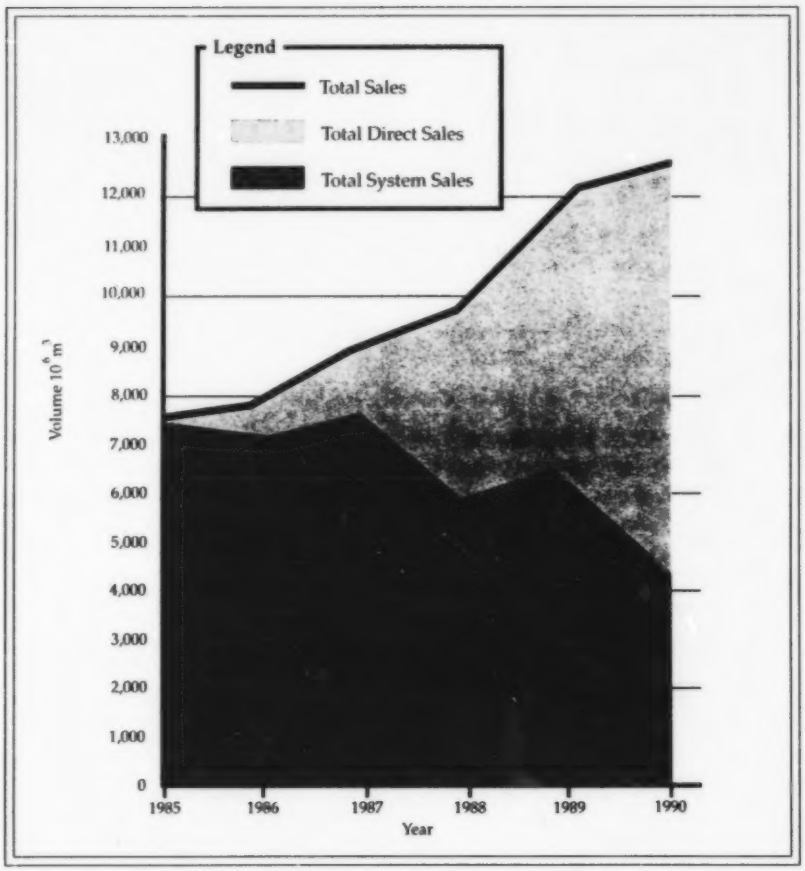


Jack Weisgerber,
Chairman

ACQUISITION ORDERS ISSUED AND OUTSTANDING



COMPARISON OF SYSTEM SALES AND DIRECT SALES



FINANCIAL REVIEW

The operating results of the fiscal year ended March 31, 1991 are not comparable with those of the previous year as they represent only four months of operation under the *Natural Gas Price Act, 1985.*

Up until August 1, 1990, sales revenues and the cost of gas purchased were included under the Natural Gas Price Adjustment Fund, which was the operating fund under the former structure of the Corporation. Sales and comparable gas purchase costs after August 1, 1990 are consolidated in the Petroleum Corporation Fund, which is the current operating fund of the Corporation.

Petroleum Corporation Fund

Prior to August 1, 1990, the Petroleum Corporation Fund reflected both transactions that occurred prior to July 1, 1985 and those not governed by the *Natural Gas Price Act, 1985.* On August 1, 1990 the fund, as it related to previous operations, was liquidated and the balance of $27,297,982 transferred to the Province as required under the *Petroleum Corporation Act.* The financial transactions of the Corporation continue to be carried on under the Petroleum Corporation Fund name, although for the year under review the financial statements reflect both the present and previous operations.

Natural Gas Price Adjustment Fund

During the first four months of the fiscal year under review, the Corporation received revenues on the resale of natural gas and by-products which were paid into the Natural Gas Price Adjustment Fund. Payments out of the fund comprised the Corporation's operating expenses and the Producer Selling Prices and Price Adjustments in accordance with the *Natural Gas Price Act, 1985.* Under the Act, all revenues revert back to the producers net of the Corporation's operating costs. With the devolution of the Corporation's marketing function to CanWest Gas Supply Inc. on August 1, 1990, an initial transfer of $24,853,240 of the fund was made to CanWest, with a subsequent transfer of $1,593,837 taking place on March 28, 1991. These payments represent the balance due the producers in the Natural Gas Price Adjustment Fund after all devolution costs were accounted for and the fund liquidated on March 31, 1991.

The operations of the Corporation's wholly owned subsidiary, B.C. Petroleum (Kitimat) Ltd., were also affected by the transition. Previous financial statements reported the subsidiary's revenues and expenditures under the Natural Gas Price Adjustment Fund. However, since August 1, 1990, its operations are now reported under the Petroleum Corporation Fund.

As of August 1, 1990, the Corporation's income is derived primarily from a levy which is collected in respect of all natural gas produced in the Province of British Columbia. For the fiscal year in review, the levy was set by the Minister of Energy, Mines and Petroleum Resources at a rate of 30.9 cents per thousand cubic metres. During the eight months of operation under the new legislation, a total of $2,559,480 was collected from producers. Of this amount, $1,300,000 was transferred to the Provincial Treasury to fund additional programs which resulted from the devolution of the Corporation's marketing functions. The balance remains with the Corporation to fund its operations.

AUDITORS' REPORT

To the Lieutenant-Governor in Council
Province of British Columbia:

We have audited the balance sheet of the Petroleum Corporation Fund as at March 31, 1991, and the statements of revenue, expenditure and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

WOLRIGE MAHON

Wolrige Mahon

Chartered Accountants

VANCOUVER, B.C.

May 23, 1991

BALANCE SHEET
March 31, 1991

ASSETS	1991	1990
Current Assets		
Cash	$ 1,423,730	$ 25,473,020
Accounts receivable	5,746,411	496,453
Prepaid expenses	1,353	0
	7,171,494	25,969,473
Prepaid Gas	0	183,404
Property Account (Note 3)	160,318	99,915
	$ 7,331,812	$ 26,252,792
LIABILITIES		
Current Liabilities		
Accounts payable and accrued charges	$ 6,579,753	$ 62,015
Surplus	752,059	26,190,777
	$ 7,331,812	$ 26,252,792

COMMITMENTS (Note 5)

Approved by the Directors

Director

Director

STATEMENT OF REVENUE, EXPENDITURE AND SURPLUS

Year Ended March 31, 1991

REVENUE	**1991**	**1990**
Natural gas sales (Note 2)	$ 32,192,281	$ 0
B.C. Levy revenue (Note 2)	2,559,480	0
Interest (Note 4)	1,150,897	5,658,616
Miscellaneous income	10,040	46,740
Gain (loss) on prepaid gas	28,279	(8,162)
Gain on disposal of assets	2	11,708
	35,940,979	5,708,902
EXPENDITURE		
Natural gas purchases	32,192,281	0
Administrative and general expenses	589,434	56,653
	32,781,715	56,653
NET INCOME	3,159,264	5,652,249
SURPLUS AT BEGINNING OF YEAR	26,190,777	54,099,433
	29,350,041	59,751,682
DEDUCT: TRANSFERS TO PROVINCIAL TREASURY	28,597,982	33,560,905
SURPLUS AT END OF YEAR	$ 752,059	$ 26,190,777

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 1991

OPERATING ACTIVITIES	1991	1990
Operations		
Net income	$ 3,159,264	$ 5,652,249
Add (deduct) items not involving a flow of cash:		
- Depreciation and amortization	27,895	46,740
- Gain on disposal of fixed assets	(2)	(11,708)
Cash from operations	3,187,157	5,687,281
Recovery of prepaid gas	183,404	2,175,288
Transfers to Provincial Treasury	(28,597,982)	(33,560,905)
	(25,227,421)	(25,698,336)
FINANCING ACTIVITIES		
Decrease in deferred liability	0	(2,083,333)
INVESTING ACTIVITIES		
Property additions	(183,040)	(88,856)
Proceeds from sale of fixed assets	94,744	14,214
Decrease in deferred receivable	0	36,015,563
	(88,296)	35,940,921
CHANGES IN NON-CASH WORKING CAPITAL		
Accounts receivable and prepaid expenses	(5,251,311)	11,582,428
Accounts payable and accrued charges	6,517,738	(21,570)
	1,266,427	11,560,858
INCREASE (DECREASE) IN CASH POSITION DURING THE YEAR	(24,049,290)	19,720,110
CASH POSITION AT BEGINNING OF YEAR	25,473,020	5,752,910
CASH POSITION AT END OF YEAR	$ 1,423,730	$ 25,473,020

NOTES TO THE FINANCIAL STATEMENTS
March 31, 1991

NOTE 1 - STATUTORY REQUIREMENTS

The Petroleum Corporation Fund is established by the *Petroleum Corporation Act, 1973.*

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION
The Petroleum Corporation Fund financial statements include the accounts of the Corporation's subsidiary, B.C. Petroleum (Kitimat) Ltd.

DEPRECIATION
Furniture, equipment and automobiles are recorded at cost and depreciation is provided at rates considered adequate to amortize the cost over the service lives of the assets. Depreciation is computed on a declining balance basis varying from 10% to 25%.

NATURAL GAS SALES
As of August 1, 1990, natural gas sales of B.C. Petroleum (Kitimat) Ltd. have been consolidated in the Petroleum Corporation Fund.

LEVY REVENUE
Under the *Natural Gas Price Amendment Act, 1990,* the producers are required to pay a levy based on the monthly volume of marketable natural gas produced. This levy is intended to offset administration costs incurred in carrying out the government's role in monitoring and overseeing the natural gas marketplace.

NOTE 3 - PROPERTY ACCOUNT

	Cost	Accumulated Depreciation	1991 Net Book Value	1990 Net Book Value
FURNITURE & EQUIPMENT	$ 162,200	$ 17,218	$ 144,982	$ 47,695
AUTOMOBILES	18,149	2,813	15,336	51,426
LEASEHOLD IMPROVEMENTS				794
	$ 180,349	$ 20,031	$ 160,318	$ 99,915

NOTE 4 - INTEREST INCOME

	1991	1990
PROVINCE OF BRITISH COLUMBIA	$ 1,088,898	$ 2,194,704
OTHER	61,999	3,463,912
	$ 1,150,897	$ 5,658,616

NOTE 5 - COMMITMENTS

The Corporation has a commitment under an agreement for the lease of office premises extending to January 31, 1996. The aggregate rental payable under the lease amounted to approximately $338,546 at March 31, 1991.

BALANCE SHEET
March 31, 1991

ASSETS	1991	1990
Current Assets		
Cash	$ 0	$ 21,274,683
Accounts receivable	0	36,826,729
Prepaid gas	0	175,303
Prepaid expenses	0	5,394
	$ 0	$ 58,282,109

LIABILITIES		
Current Liabilities		
Accounts payable and accrued charges	$ 0	$ 31,208,565
Liability For Future Gas Supply	0	1,770,816
Amount Available For Distribution	0	25,302,728
	$ 0	$ 58,282,109

Approved by the Directors

Director

Director

STATEMENT OF REVENUE, EXPENDITURE & FUND BALANCE

Year Ended March 31, 1991

REVENUE	**1991**	**1990**
Sales from natural gas, natural gas liquids, and sulphur (Note 2)	$ 75,444,575	$ 350,928,399
Interest	1,311,381	2,545,295
	76,755,956	353,473,694
EXPENDITURE		
Natural gas purchases	73,130,871	325,900,415
Price Adjustments	3,581,251	16,294,722
Payments for natural gas liquids	4,452,006	19,512,554
Administrative and general expenses	2,080,545	3,719,681
	83,244,673	365,427,372
EXCESS OF EXPENDITURE OVER REVENUE	6,488,717	11,953,678
FUND BALANCE AT BEGINNING OF YEAR	25,302,728	37,256,406
	18,814,011	25,302,728
DEDUCT: TRANSFER OF ASSETS & LIABILITIES TO CANWEST GAS SUPPLY INC. (Note 3)	18,814,011	0
FUND BALANCE AT END OF YEAR	$ 0	$ 25,302,728

NOTES TO THE FINANCIAL STATEMENTS
March 31, 1991

NOTE 1 - STATUTORY REQUIREMENTS

The Natural Gas Price Adjustment Fund is established by the *Natural Gas Price Act, 1985.*

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

GAS SALES

Under the terms of an agreement between Westcoast Energy Inc. and British Columbia Petroleum Corporation, effective November 1, 1973, the Corporation sells natural gas to Westcoast at a price equal to the gross revenue received by that Company on the resale thereof less that Company's cost of service, in respect of gathering, processing and transporting the gas, for the month in which such resale takes place. In addition, the Corporation sells natural gas to other customers at negotiated prices. The revenues from sales of natural gas and by-products are paid into the Natural Gas Price Adjustment Fund for subsequent distribution to producers, as required by the *Natural Gas Price Act, 1985.*

CHANGES IN FINANCIAL POSITION

A statement of changes in financial position is not provided as disclosure of such information in these financial statements is considered to be adequate.

NOTE 3 - DISCONTINUATION OF OPERATIONS

On August 1, 1990 the British Columbia Petroleum Corporation transferred its gas marketing operations as well as its fixed assets to CanWest Gas Supply Inc.

Details of the transaction are as follows:

ASSETS

Cash	$ 26,447,077
Accounts receivable	13,022,268
Fixed assets	86,968
	$ 39,556,313

LIABILITIES

Accounts payable	$ 18,971,487
Liability for future gas supply	1,770,815
Amount available for distribution	18,814,011
	$ 39,556,313

AUDITORS' REPORT

To the Lieutenant-Governor in Council
Province of British Columbia:

We have audited the balance sheet of the Natural Gas Price Adjustment Fund as at March 31, 1991, and the statements of revenue, expenditure and fund balance for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 1991 and the results of its operations for the year then ended in accordance with generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

WOLRIGE MAHON

Wolrige Mahon

Chartered Accountants

VANCOUVER, B.C.

May 23, 1991

CORPORATION INFORMATION

DIRECTORS:

Honourable Jack Weisgerber
Minister of Energy,
Mines & Petroleum Resources
Chairman of the Board
Victoria, B.C.

John Allan
Deputy Minister of Energy,
Mines & Petroleum Resources
Victoria, B.C.

Larry E. Fisher
Businessman
Surrey, B.C.

Hon. Audrey L. Moore
Mayor of Castlegar, B.C.

Henry Thiel
Businessman
Victoria, B.C.

SENIOR PERSONNEL:

Gordon A. Pearson
General Manager

Marlene S. Carnegie
Acquisition Order
Co-ordinator

Sharon A. Baylis
Finance and Administration
Officer

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